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POLICY

OTHER FUNDS AND PROGRAMMES

UNITED NATIONS CAPITAL DEVELOPMENT FUND

Report of the Administrator

SUMMARY

This report is submitted in accordance with General Assembly resolution 36/200 of 17 December 1981, which directed that, beginning in 1983, a broad policy review be undertaken on a biennial basis of those funds and programmes that are managed by the Administrator and are under the guidance of the Governing Council.

In addition to reviewing the operations of the United Nations Capital Development Fund in 1989 and 1990 and the experience gained with the different funding modalities used by the Fund, this report, in accordance with Governing Council decisions 87/37 of 18 June 1987 and 89/56 of 30 June 1988, provides information on the Fund's operations and financial status under the modified partial funding system.

INTRODUCTION

1. The biennium 1989-1990 reflected the consolidation of the achievements of the United Nations Capital Development Fund (UNCDF) after a period of continued expansion. UNCDF has been able to reach a record high volume of operations, with yearly approvals of over $75 million accompanied by expenditures of between $45 million and $50 million.

I. POLICY FOR THE 1990s

A. The Second United Nations Conference on the Least Developed Countries

2. The Programme of Action for the Least Developed Countries for the 1990s, adopted by the Second United Nations Conference on the Least Developed Countries in September 1990 in Paris, endeavours to remedy the failings of the 1980s and to ensure the conditions for accelerated growth and development in these countries. The Conference recognized that this goal could not be achieved without involving the majority of people in least developed countries (LDCs) in the fight against poverty.

3. It is in this broad context that, among other items, the Programme of Action called upon the international community to provide UNCDF with additional resources to allow the Fund to play an even greater role in channelling aid to LDCs. The Fund was created precisely to meet the direct priority needs of the lower-income groups; it provides the sort of capital assistance for small infrastructure projects which are carried out by the developing countries themselves. It also extends credit for agricultural production and small enterprise development. The Programme of Action recognizes the role of the Fund in complementing LDC efforts in the area of investment and maintenance of infrastructure and invites donor countries to consider a 20 per cent annual increase in overall funding until the end of the decade. While the proposed increased funding for UNCDF as called for by the Conference is encouraging, it cannot possibly come close to meeting the needs of LDCs. It will, however, enable the Fund, as the grant investment arm of the United Nations Development Programme (UNDP), to play a more significant role in strengthening the impact of country programmes on the reduction of poverty.

4. The list of countries receiving UNCDF assistance has expanded steadily, from 37 countries in 1981 to 48 countries in 1990. This reflects the expansion of the LDC category (from 31 countries to 42 over the same period), the inclusion of Nicaragua in the "As if" LDC category, and of Bolivia, which joins Viet Nam as a beneficiary country outside the above categories. A new programme was developed in Mozambique when the country was granted LDC status. This will be the case for Liberia when political stability and security is re-established. Hence, the focus of the Fund's assistance "first and foremost" in favour of the LDCs, as directed by General Assembly resolution 3122 (XXVIII), has been fully maintained.

5. As a follow-up to its participation in the Second United Nations Conference, the Fund is assisting the Government of Japan in organizing a high-level forum, to take place in Tokyo in May 1991, on the subject of the strategies for the LDCs in the 1990s. This initiative, welcomed by the General Assembly at its forty-fifth session, coincides with the twenty-fifth anniversary of the Fund. Other concerned units in UNDP will participate in the forum and a paper entitled "Investing in Human Development" will be presented by the Bureau for Programme Policy and Evaluation (BPPE).

B. Response to General Assembly resolution 44/211 and Governing Council directives

6. General Assembly resolution 44/211 of 22 December 1989, which serves to guide the main thrust of operational activities for development of the United Nations system, outlines many dimensions of assistance that are key features of the Fund's operations. These include coordination, national execution and grass-roots participation.

7. Programme coordination at the country level is a key element of the Fund's planning and project identification mission, both in the country programme and in the context of aid delivered by other multilateral and bilateral donors. Illustrations are the new UNCDF programmes in Laos and Mozambique. In Uganda, through a programme approach and a concerted UNDP/UNCDF effort in geographical area development, investment projects were identified as an integral part of the next, i.e. the fourth, country programme and complementary to the activities of other donors. In a wider context, the Fund also actively participated in the round-table meetings for Laos, Lesotho, the Maldives and Sao Tomé. At the project level, significant co-ordination results can already be shown. During 1989-1990, 64 per cent of the new projects approved received technical assistance from indicative planning figure (IPF) sources. UNCDF also works closely in partnership with other donor countries and agencies through joint and parallel financing. At headquarters level, UNCDF has initiated the procedure of appraising, together with the Regional Bureaux concerned, one consolidated project document covering both technical and capital assistance.

8. In line with its legislative mandate and consequent operational policies, UNCDF promotes the national execution modality for the delivery of its capital aid to LDCs and considers different implementation arrangements when designing projects. The goal is to maximize the utilization of demonstrated institutional capacities in recipient countries and concurrently to build up national management and administrative capacities. These arrangements take the form of either a Project Management Unit, composed of international and national personnel to oversee the implementation of one project, or of a Programme Management Unit to manage and supervise the overall UNCDF programme in a country (e.g. Mali, Viet Nam). Other measures include partnership with both public and private institutions and the fielding of annual independent technical/financial audit missions to reinforce local monitoring capacities (e.g., in Comoros, Djibouti, Rwanda and Senegal).

9. Promotion of participation at the grass-roots level continues to be a priority of the Fund. About 21 per cent of the ongoing projects involves community participation through a variety of mechanisms such as cooperatives, village committees and ad hoc groups. This participation takes place both at the project planning level and at the level of project execution. The Fund has recently initiated a study of its experience in participatory development to help frame its programme policy for the 1990s.

10. Governing Council decision 90/34. The UNCDF programme approved in 1990 is in line with the human development priorities specified in Governing Council decision 90/34 on the fifth programming cycle, as they apply to investment projects. The ways in which UNCDF programme specifically addresses several of these priorities are elaborated in paragraphs 17-19 below.

II. PROGRAMME DEVELOPMENT

11. Project approvals. With pledges on the rise, the partial funding formula revised in 1987 has allowed project approvals to rise to $77.9 million in 1989, of which $2.3 million came from donor co-financing, and $78.1 million in 1990 for 28 new projects. The average size of projects has increased to $2.5 million in 1990, partly reflecting the declining purchase power of the United States dollar.

12. Project expenditures. UNCDF expenditures for 1989 rose to $49.1 million, of which $47.6 million came from general resources and $1.5 million came from co-financing. While still one of its better years in terms of delivery, in 1990 projections indicate a lower level of expenditures (about $44 million) from all sources, since natural disasters and some instances of political instability slowed field operations. Delays in project activities experienced in one year are often made up in the next. Thus, for 1991-1992 UNCDF is planning for an increase in overall delivery of more than $55 million per annum.

13. Programme operations. During 1989-1990, UNCDF fielded six planning and projects identification missions. Of the projects identified, 26 (worth $68 million) have been retained as active pipeline projects, four of which have already been approved while several others are at various stages of the project approval process.

14. The UNCDF programme is sharply focused on poverty reduction. In 1990, over 65 per cent of UNCDF new commitments have been devoted to food production for the lower-income groups, as compared to 58 per cent registered in 1989. In the agriculture sector, UNCDF has given special attention to the development of small irrigation schemes as an alternative concept to the larger ventures of the past and as a means to secure food self-sufficiency with full involvement of the farmers. For instance, UNCDF has for the first time adopted a flexible approach to project implementation in order to facilitate full participation of farmers in a rice production project in remote northern Laos. In Tanzania, UNCDF will take on a leading role in helping the Government to reorient its irrigation policy in the Iringa district and demonstrating the effectiveness of low-cost traditional irrigation schemes.

15. The projects also provide infrastructure to meet basic needs. Such instances in the 1989 programme include: shelter in N'Djamena, Chad; water supply in Ethiopia, Kiribati and Lesotho; and primary schools in Somalia and Cape Verde. UNCDF assistance also aims at promoting business through credit mechanisms in Malawi, Lesotho, Senegal and Yemen; and processing and marketing local products in Bolivia. As in the past, whenever feasible, the Fund's programme in a given country seeks synergy at the local level through a concentration of economic infrastructure, productive activities and social investments.

16. The 1990 sectoral breakdown of new project approvals reflects the following distribution of capital assistance: (a) productive activities: 58 per cent, including agriculture (45.5 per cent) and industries (12.5 per cent); (b) economic infrastructure: 14.3 per cent, including transport (10.8 per cent) and energy (3.5 per cent); and (c) basic needs: 27.7 per cent, including water supply (8 per cent) and housing (19.7 per cent).

17. As noted above, UNCDF activities already reflect most of the six priority areas specified in paragraph 7 of Governing Council decision 90/34. Of particular importance are poverty alleviation and grass-roots development which are fundamental to UNCDF operations. In 1990, 78.6 per cent of the new projects include participatory and/or credit mechanisms to secure fully the mobilization of beneficiaries in project activities; 18 per cent involve cooperation with NGOs. For the first time, the Fund has financed two innovative ventures at the interregional level in support of grass-roots participation: the UNCDF support to the Partners in Development Programme to promote income-generating micro-activities, and the Seed Capital Fund to initiate micro-enterprise credit programmes to transfer to other LDCs the experience of the Grameen Bank. Also, in Senegal and Tanzania, local NGOs will be contracted to act as agents for micro-credit operations. Both projects are based on a joint liability concept, with payments to the NGOs being made contingent upon a fixed recovery rate.

18. Environment issues, another priority area for UNDP, are analysed as an integral part of the UNCDF project appraisal process. Ecologically sound initiatives have been launched in many sectors; for example, reafforestation efforts in Burundi and Bolivia, preservation of the carrying capacity of the rangelands in Benin, provision of alternatives to slash-and-burn cultivation practices in Laos, and land reclamation in Rwanda. The Fund's grass-roots environment approach promotes a simple principle: making people responsible for their ecosystem must be linked to their economic self-interest. For instance, in the Altiplano in Bolivia, UNCDF support for range management intervention will halt the advanced process of pasture degradation caused by overgrazing and restore the agro-ecological balance. At the same time, wool processing will generate income to help lift the region from poverty.

19. Gender sensitivity is also a constant factor in the design of the Fund's projects. In 1990, 35.7 per cent of the new projects entailed the direct involvement of women as compared to slightly more than 20 per cent in 1989. For example, in Lesotho, some 60 per cent of the targeted enterprises under a credit guarantee project will be headed by women; and in an irrigation project in Bolivia, women will be largely responsible for dairy activities and become a necessary intermediary in the production chain from forage crop cultivation to milk marketing.

20. Loan operations. In accordance with Governing Council decision 85/24 of 28 June 1985, in 1989 the Fund approved its third loan project for $2.84 million to finance a water supply and sanitation project in Botswana. The Fund is providing $2,740,000 in the form of an interest-free soft loan, and the balance as a grant. The loan carries a 3 per cent service charge and a repayment period of seven years after a three-year grace period. It represents the second loan project financed by UNCDF in Botswana and the third in the UNCDF loan portfolio. The other two are a road construction project in Botswana and a biogas project in Nepal. During the biennium, an estimated $8 million in loans was disbursed, of which $5.8 million was in 1990. The Nepal project has so far disbursed $0.2 million of its $0.5 million loan amount out of a project total of $1 million. Both projects in Botswana have disbursed their entire loan amounts. In extending this alternative form of assistance to LDCs, the Fund will continue to exercise caution, taking into account favourable country and project conditions.

III. EVALUATION ACTIVITIES

21. Project evaluations: Lessons learned. During 1989-1990, UNCDF fielded 27 in-depth evaluation missions: 6 ongoing, 18 completed and 3 ex post facto projects. Results of these evaluations findings were shared with relevant Bureaux and Units in UNDP. The majority of the projects achieved all or most of their immediate objectives and responded directly to the needs of low-income groups, with facilities utilized as intended. In general, models and approaches developed were found useful in tackling the development issues of the sector. Complementarity between technical and capital assistance contributed significantly to strengthening the commitment of local institutions. Increased community participation was also registered. Weaknesses identified included the lack of pre-project data and studies; difficulties in the logistics of procurement and construction; shortcomings in project management; unrealistic schedules; and inadequate consideration of operation and maintenance costs in order to ensure long-term viability. UNCDF also learned that the thorough formulation of a project or the successful delivery of its outputs do not by themselves systematically guarantee project sustainability. This is subject to numerous external factors, which include the broader governmental policy framework from human resources management to pricing structures, or, more specifically, the commitment of local authorities and communities to project operations after project completion. Also, a project is more likely to have a lasting impact when a strong partnership exists between the central government through its policy and financial support, on the one hand, and the local communities through a workable participatory mechanism and a viable cost-recovery scheme to defray recurrent costs, on the other hand. UNCDF ensures that the evaluation results are fully taken into account in the designs and formulations of new projects.

22. Impact. The great majority of the projects evaluated have achieved all or most of their immediate objectives and have brought about some positive and/or indirect impact. In general, the projects have improved the living conditions of the beneficiaries through provision of social infrastructure and promoted self-reliance through productive activities. For example, the Lesotho fruit and vegetable cannery project has improved rural life by creating employment to both

farmers and plant workers and has brought steady growth in foreign exchange earnings through export. Likewise, in Bangladesh, the provision of seed capital to individuals for cottage industry activities through the Bangladesh Small and Cottage Industry Corporation has provided poor people with an opportunity to become independent of moneylenders and to be self-confident; the project has registered positive impact with respect to job creation and higher income. However, partly as a result of the vulnerable socio-economic environment and the limited absorptive capacity of the LDCs, and partly as a result of other external factors, project sustainability and long-term impact are threatened in spite of present successful operation in some cases. Such is the case in Niger, where the reinforced Labocel veterinary laboratory, through a mix of UNCDF capital assistance and IPF-funded transfer of technology, has successfully developed a new anti-plague vaccine for cattle and has attracted other bilateral follow-up investments aimed at improving veterinary services.

23. Programme evaluations: Water supply and sanitation sectoral review. A review of UNCDF activities in this sector was completed in 1990. The review revealed that, like other agencies active in the sector, UNCDF had to learn that a concentration on the "hardware" aspects of water supply projects, e.g., the provision of equipment and drilling of boreholes, cannot by themselves achieve the objective of providing a reliable supply of safe water to the beneficiaries. Furthermore, since water supply projects inevitably carry health-related objectives, these cannot be met without including comprehensive health and sanitation components, including user education in the project design, and without thorough analysis of the effective demand for water. An in-house workshop for UNCDF programme staff was organized to feed the results of the review into the UNCDF programming process. Moreover, a closer relationship with the Joint UNDP/World Bank Water and Sanitation Programme is being explored.

24. Other programme-wide reviews undertaken include a desk review of UNCDF activities in the agriculture sector and, in collaboration with the Regional Bureau for Africa and the Central Evaluation Office, a review of United Nations-financed irrigation projects in Tanzania. The sectoral review on agriculture calls for improved project frameworks, highlights management issues of operations and maintenance and advocates a deeper sociological grasp of beneficiary groups to optimize grass-roots participation. The review on irrigation calls for a comprehensive government policy for the sector. Instead, United Nations assistance should concentrate on consolidating existing small schemes run by beneficiaries. This recommendation has been translated into the joint UNDP/UNCDF Pawaga irrigation project in Tanzania.

IV. FINANCIAL SITUATION UNDER THE REVISED PARTIAL FUNDING FORMULA

25. Resources. Following the November 1989 Pledging Conference, it was anticipated that UNCDF would receive an estimated $39 million in voluntary contributions for 1990. Not all expected pledges materialized. However, as a result of currency fluctuations, the value of contributions totalled $39.7 million at year end. Contributions for 1990 represented an 8 per cent increase in dollar

value above 1989. Pledges for 1991 are estimated at $46 million, a 16 per cent increase from 1990. This approaches the target set by the Second United Nations Conference to achieve 20 per cent annual increases in UNCDF resources.

26. Financial situation. In 1987, the Governing Council permitted the Fund to apply a revised partial funding formula so as to enable levels of approvals well above current pledges. It was foreseen that increases in new projects would lead to increased expenditures and reduce the liquidity accumulated in the past under full funding conditions. Indeed, such was the case in 1989, when expenditures from general resources were more than $47 million. Use of funds exceeded income, and UNCDF drew down on accumulated financial resources by more than $6 million. Project approvals reached $77.9 million in 1989; this should lead to expenditures in future years that are substantially higher than those reached in 1989. The revised partial funding formula is proving to be effective in allowing higher levels of programme activity and in reducing accumulated resources.

27. Resource requirements. Because of the 16 per cent increase in pledges for 1991, UNCDF is resuming an active schedule of planning and project identification missions and is expecting to reach $85 million in new project approvals in 1991. If pledges remain constant at the 1991 level, projections show a decline in supply of such assistance from current levels beginning in 1993. This situation would clearly run counter to the stated desire of the Second United Nations Conference on LDCs.

28. UNCDF examined two alternative models for annual growth in its general resources: 20 per cent as called for by the Second United Nations Conference, and 10 per cent for discussion purposes (see annex for details). The Administrator proposes that the 20 per cent rate of growth be adopted for planning purposes.

29. Staffing implications. If the Governing Council accepts this proposal of the Administrator, staffing will need to be closely reviewed to ensure that there is the capacity required to deliver and manage the projected levels of approvals, and that UNCDF can continue to play a key role in the implementation of the Programme of Action. Details of the administrative budget for UNCDF are contained in the Administrator's budget estimates for 1992-1993.

V. ADMINISTRATIVE MATTERS

30. The direct administrative costs met from the general resources of the Fund in 1989, covering salaries, common staff costs, consultant costs, official travel, and general operating expenses amounted to $3.3 million, including the cost of services rendered by UNDP. In 1990, these costs are estimated at $4 million. In addition, programme support services, that is, the costs of formulation and field and headquarters project implementation services, totalled $1.9 million in 1989 and an estimated $2 million for 1990.

Annex

GENERAL RESOURCE AVAILABILITY AND UTILIZATION 1985-1994 a/

(Millions of United States dollars)

	Actual					Estimated	20 per cent growth projected					Estimated	10 per cent growth projected				
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1990	1991	1992	1993	1994	1995
STATEMENT OF MOVEMENT IN GENERAL RESOURCES																	
Available resources from previous year	81.1	88.6	95.3	99.8	105.2	99.1	99.3	90.8	79.4	72.5	64.0	99.1	99.3	90.8	76.7	64.8	49.3
Adjustments to resources during the year																	
Voluntary contributions received	21.9	26.7	31.5	35.5	36.5	39.7	46.0	55.2	66.2	79.5	95.4	39.7	46.0	50.6	55.7	61.2	67.3
Loan repayments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	1.1	1.2	2.0	0.0	0.0	0.3	1.1	1.2	2.0
Other income	10.8	10.6	11.9	10.9	14.3	14.0	13.6	13.3	12.8	13.0	13.4	14.0	13.6	13.3	12.4	11.9	11.1
Project expenditure	(22.0)	(25.1)	(30.7)	(31.3)	(45.7)	(37.9)	(58.9)	(62.8)	(71.1)	(82.2)	(96.4)	(37.9)	(58.9)	(62.8)	(69.2)	(76.2)	(84.0)
Administrative expenditure	(2.5)	(2.7)	(3.1)	(3.2)	(3.2)	(4.0)	(4.4)	(5.3)	(6.3)	(7.6)	(9.1)	(4.0)	(4.4)	(5.1)	(5.8)	(6.7)	(7.7)
Loans disbursed	0.0	0.0	0.0	0.0	(1.9)	(6.1)	(0.2)	(6.0)	0.0	0.0	0.0	(6.1)	(0.2)	(6.0)	0.0	0.0	0.0
Change in oper. reserve/ non-convertible currencies	(0.7)	(2.8)	(5.1)	(6.5)	(6.1)	(5.5)	(4.6)	(6.1)	(9.6)	(12.3)	(15.4)	(5.5)	(4.6)	(4.4)	(6.1)	(6.8)	(7.5)
NET CHANGE IN RESOURCES DURING THE YEAR	7.5	6.7	4.5	5.4	(6.1)	0.2	(8.5)	(11.5)	(6.9)	(8.5)	(10.2)	0.2	(8.5)	(14.1)	(11.9)	(15.5)	(18.8)
TOTAL GENERAL RESOURCES AT YEAR END																	
Available resources	88.6	95.3	99.8	105.2	99.1	99.3	90.8	79.4	72.5	64.0	53.8	99.3	90.8	76.7	64.8	49.3	30.5
Operational reserve: non-convertible currencies	26.0	28.8	33.9	40.4	46.5	52.0	56.6	62.7	72.3	84.6	100.0	52.0	56.6	61.0	67.1	73.9	81.4
Loans receivable					1.9	8.0	8.2	13.9	12.8	11.6	9.6	8.0	8.2	13.9	12.8	11.6	9.6
Total restricted resources	26.0	28.8	33.9	40.4	48.4	60.0	64.8	76.6	85.1	96.2	109.6	60.0	64.8	74.9	79.9	85.5	91.0
Total general resources at year end	114.6	124.1	133.7	145.6	147.5	159.3	155.6	156.0	157.6	160.2	163.5	159.3	155.6	151.6	144.7	134.8	121.6
STATEMENT OF TOTAL OUTSTANDING COMMITMENTS																	
(i) Grants																	
Project commitments from previous year	122.4	128.3	139.2	164.3	200.8	220.2	256.0	273.1	309.3	357.6	419.2	220.2	256.0	273.1	300.8	331.5	365.4
Approvals during year (grants only)	33.4	44.0	58.2	67.8	73.0	79.0	79.0	102.0	122.4	146.9	176.3	79.0	79.0	93.5	102.9	113.1	124.4
	155.8	172.3	197.4	232.1	273.8	299.2	335.0	375.1	431.7	504.4	595.5	299.2	335.0	366.6	403.7	444.6	489.8
Project expenditure during year	(22.0)	(25.1)	(30.7)	(31.3)	(45.7)	(37.9)	(58.9)	(62.8)	(71.1)	(82.2)	(96.4)	(37.9)	(58.9)	(62.8)	(69.2)	(76.7)	(84.0)
Annual project savings b/	(5.5)	(8.0)	(2.4)	0.0	(7.9)	(5.3)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)	(5.3)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
	(27.5)	(33.1)	(33.1)	(31.3)	(53.6)	(43.2)	(61.9)	(65.8)	(74.1)	(85.2)	(99.4)	(43.2)	(61.9)	(65.8)	(72.2)	(79.2)	(87.0)
Total outstanding grant commitments b/	128.3	139.2	164.3	200.8	220.2	256.0	273.1	309.3	357.6	419.2	496.0	256.0	273.1	300.8	331.5	365.4	402.8
(ii) Loans																	
Loan commitments from previous year					6.4	7.2	0.2	6.0	0.0	0.0	0.0	7.2	0.2	6.0	0.0	0.0	0.0
New loan approvals	0.0	0.0	0.0	6.4	2.7	(0.9)	6.0	0.0	0.0	0.0	0.0	(0.9)	6.0	0.0	0.0	0.0	0.0
Loan disbursements during year					(1.9)	(6.1)	(0.2)	(6.0)	0.0	0.0	0.0	(6.1)	(0.2)	(6.0)	0.0	0.0	0.0
Total outstanding loan commitments				6.4	7.2	0.2	6.0	0.0	0.0	0.0	0.0	0.2	6.0	0.0	0.0	0.0	0.0
TOTAL OUTSTANDING COMMITMENTS c/	128.3	139.2	164.3	207.2	227.4	256.2	279.1	309.3	357.6	419.2	496.0	256.2	279.1	300.8	331.5	365.4	402.8

a/ This table shows the annual level of project approvals and expenditures made possible from UNCDF general resources. It does not show additional project approvals and expenditures made possible from cost-sharing and/or trust fund arrangements.

b/ Annual project savings are realized from completion of projects at less than estimated cost. They are quantified upon government certification of satisfactory completion of works.

c/ This amount is in excess of available resources as a result of the application of the partial funding formula. Please note that certain totals may appear incorrect, as a result of rounding.